

Board Special Meeting

John Stanford Center – Board Office Conference Room

2445 3rd Avenue South, Seattle, WA 98124



Audit & Finance Committee Meeting Minutes Thursday, February 11, 2016 4:30 – 6:30 pm

Call to Order

Director Peters called the meeting to order at 4:31 pm.

School Board members present were Directors Peters and Harris.

Staff members present were Assistant Superintendent for Business & Finance Ken Gotsch, Executive Director of Talent Management Adrian Byrd-Pina, Interim Accounting Manager Barry Tsoi, Manager of Risk Management Richard Staudt, Budget Director Linda Sebring, Grants Director Michael Stone, Senior Capital Auditor Kimberly Fry, Internal Auditor Alphonso Melton, Accounts Payable Supervisor Alan Mardock, Director of Internal Audit Andrew Medina, Audit Response Manager Annette Boulmetis, Contracts Manager Diane Navarro, Principal at John Stanford Principal International Dedy Fauntleroy
From State Auditor's Office – Heidi Wiley, Auditor in Charge, Anastassia Kavanaugh, Audit Supervisor and Joe Simmons, Audit Manager.

Approval of Agenda

Director Peters moved to approve the agenda. Director Harris seconded. The agenda was approved unanimously.

Director Harris moved to approve the January 14, 2016 meeting minutes. Director Peters seconded. The minutes were approved unanimously.

Washington State Auditor's Office Entrance (Wiley)

Anastassia Kavanaugh introduced Joe Simmons and Heidi Wiley. Heidi Wiley spoke about the accountability audit process as a risk based approach. Ms. Wiley explained the three areas that were required to be audited this year are self- insurance, staff mix and Career and Technical Education. She asked Directors to review the full list of accountability audit areas at the provided entrance document.

Directors asked what the term "staff mix" means and Mr. Simmons reviewed the definition. Directors asked if rates have to do with highly qualified teachers. Ms. Kavanaugh explained no not with the staff mix.

Ms. Wiley spoke about the purpose of the financial statement audit is to ensure the financial statements are presented fairly, in all material respects, and comply with relevant reporting requirements. Five programs were selected for federal grant compliance audit this year. Two programs were selected based on findings from the previous year and the other three were selected based on single audit threshold criteria and risk.

Directors asked what made the two audit items carry over. Ms. Wiley spoke about how they were part of the time and effort finding in the prior year audit as a control deficiency. Directors asked how the school grant cluster and Race to the Top were selected. Ms. Wiley spoke about federal grant audit planning standards. The Race to the Top grant is in its first year required for audit because of the dollar amount and the school grant cluster is required to be audited every three years.

Ms. Wiley spoke about how the audit engagement letter was signed by Superintendent Nyland, Assistant Superintendent Kenneth Gotsch and the Audit & Finance committee chair Director Sue Peters. Ms. Wiley spoke about the levels of reporting. Any findings, management letters or exit items are reported to the Board at the exit conference. Findings are reported in detail in the audit report and management letters are briefly mentioned in the audit report. Exit items are not mentioned in the audit report.

Directors ask where the public can locate the exit items and entrance items. Mr. Gotsch explained they are in the minutes and in a public forum at the end of the meeting. Ms. Wiley spoke about the kickoff meeting and that the SAO reminded key staff if confidential data is provided to make sure audit staff is informed so it can be protected appropriately. Directors ask if confidential info is given who it is protected by. Ms. Kavanaugh spoke about how the confidential information is protected and it is marked in emails and audit files. The SAO also uses a tool for secure file transfer. Ms. Kavanaugh gave examples of how they keep all files as confidential as possible.

Ms. Wiley spoke of the estimated cost for the audit, and weekly status meetings to keep them and the district updated on the audit process. Ms. Wiley spoke about how at the end of the audit a customer survey will be sent and all input will be appreciated. Loss reporting state law requires it's reported to SAO. A link was given in order for those items to be returned to the SAO.

Directors asked how the cost compared to last year. Ms. Wiley explained the increase this year is a \$5 more than last year.

Special Attention Item

1. Travel Procedures (Gotsch)

Kenneth Gotsch spoke about how senior colleagues have been asked to change the travel procedure. Mr. Gotsch spoke about how the previous committee members appreciated the check points that we currently have in place. Mr. Gotsch summarized why we currently do the travel procedures the way we do and gave a review of current travel policy for the district.

Directors asked currently how travel is vetted. Mr. Gotsch explained this processes of vetting would be items that would be looked into during the staff review of the procedures.

Mr. Gotsch asked if the directors would like to see anything specific in the report. Directors would like to see how we approve travel, how to we see the travel and what the payout is for the kids.

Mr. Gotsch noted the goal of this work is to help inform and confirm if the process currently in place is efficient.

Directors asked if there is a travel budget for each department and each region. Mr. Gotsch explained that each department has a budget for travel. Michael Stone noted Title I would need to be involved if it's a Title I school.

Directors asked if the review of the procedure will take longer than seven months. Mr. Gotsch spoke about how it would be done sooner and has a goal to be completed before the 2016-17 school year.

2. Insurance Replacement Cost Appraisals (Staudt)

Richard Staudt spoke about how this report is informational only. This is a significant insurance change and we are advising the Committee of this change. In May the full coverage proposal will be reviewed and brought to the committee and board. Washington School Risk

Management Pool (WSRMP), provides generous coverage, covering the replacement of all of our buildings. They cover up to \$500 Million of any single loss. Mr. Staudt spoke about if the District were buying commercial insurance we would be required to report 80-90% of insurable values or see our claim payment reduced; this is not the case with the WSRMP coverage. A number of school districts have under estimated their building replacement values and the

WSRMP hired an outside firm to estimate. The District's buildings are undervalued and we should be at \$2.26 billion, even after increasing our property values by \$564 million last year to \$1.776 billion. We have to bring our values up and have been given until September 2018 to do so. We have a timeline in place and will increase our stated values progressively over the three years, moving to 85% of replacement cost values for September 2016.

Directors asked if the firm is looking at it on an underwriting system. Mr. Staudt noted WSRMP does do that, the outside firm AssetWorks is looking at what they would see as the values.

Directors asked can we be caught in the 15% and not have the full value paid back. Mr. Staudt spoke about how no they would not and they would go beyond the cost to bring items up to current codes at the time of the loss.

Directors asked if the District has retained outside counsel to have an overview of this. Mr. Staudt spoke about how the district hasn't brought in outside counsel; our internal general counsel has looked at it.

Directors asked how disagreements about claims are settled. Mr. Staudt spoke about the first level is a vote of elected school officials that make up the board on the WSMRP.

Directors asked what makes up the maximum probable loss and whether it would be below the \$500 million limit. Mr. Staudt explained it had to do with the location and proximity of the buildings to each other. It is conceivable that a single explosion could impact Dunlap, South Shore, South Lake, Southeast Athletic Complex and Rainier Beach, as they are within less than a quarter mile of each other, but the total combined value is just over \$114 million. Mr. Staudt clarified this is other than earthquake, flood and terrorism.

Directors ask if there is any way to break out older schools for earthquake insurance. Mr. Staudt explained the District can look at individual schools, however we have looked at the policy before and it was a \$4 million annual premium for \$25 million in earthquake coverage, which wouldn't even cover half of a high school. Last time it was looked at, the district decided it had other priorities.

Directors asked which department is in charge of disaster planning for the District. Mr. Staudt explained that Operations is the department in charge of disaster planning which is headed by Pegi McEvoy. In the emergency operations plan, risk management is assigned the role of coordinating care for injured employees under our self-insured workers' compensation program.

Items Requiring Board Action on March 2 and/or March 16, 2016

1. Robert Half Int'l Master Contract -Information Only (Navarro)

Diane Navarro spoke about how this item is informational only. Ms. Navarro spoke about how the Robert Half International contract is going above the \$250k mark. Ms. Navarro spoke about the last time this agreement was brought to the Board it was under the \$250k and since then two modifications have come through for the contract. Total ledger amount is now at approximately \$417K, and this most recent contract is for approximately \$177,202 (amounts updated per Friday Memo).

Directors asked what the District is doing to recruit women and minorities. Ms. Navarro spoke about how we have three of the eleven staffing firms that are state WMBE/DBE certified. Ms. Navarro spoke about how we continue to attend TABOR100 meetings, having TABOR is the best network for other large public agencies looking to do outreach. We also attend trade shows that other public agencies are hosting for small businesses, in an effort to market the District's upcoming projects. Directors asked about expanding to other minority focus groups.

2. McDonald International School 2015-16 Annual Fund for Language Immersion Support Campaign for Language Immersion Instructional Assistants (Stone)

Michael Stone spoke about the McDonald International School has the annual request to fundraise to support language immersion IAs in the classroom.

Principal Dedy Fauntleroy spoke on behalf of Principal Dan Golosman about how McDonald goes through the PTA for fundraising.

Directors question the equity issues in this model. Principal Fauntleroy spoke about how any additional items, such as Instructional Aides(IAs) to be in the classroom, or additional language support from native speaking interns.

Directors asked if this plan with interns is working. Principal Fauntleroy explained yes it is working. Great success is going on with interns in the Spanish speaking community from Spain of up to \$200 per month

The annual fund pays for the expenses of the IA's and for providing the native speaking interns with a stipend. The native speaking interns are provided housing through the JSIS families for the year.

Directors asked what about schools that do not have the ability to have PTA fundraising. How that is equitable. Mr. Stone explained it is not equitable, they have Title I and LAP grants and this can be seen on the Budget Office's "big sheet". The three other International Elementary schools do not use the model of Language Immersion Instructional Assistants at all grade levels. Those schools utilize discretionary and general fund dollars to support the language Immersion IAs.

Ms. Sebring will provide the previous year's big sheet for this item an upcoming the Friday Memo.

Principal Fauntleroy suggest that a larger conversation on how funding can be gained. Principal Fauntleroy explained if this isn't approved then all IAs would have to be laid off and it will be a very different school.

Directors asked PTSA subsidies \$3 million a year. Mr. Stone confirmed that is around \$3 million. The general support of PTSA/PTA grants are for additional arts, music, intervention or technology teachers. Mr. Stone spoke about new possibilities with the new Federal law, ESSA, in 2017-18.

Directors suggested grants should also be looked at for how this can be funded.

The Committee reviewed the item and moved it forward for consideration by the full Board where a full discussion of this item by the board will take place.

3. John Stanford International School 2015-16 Annual Fund for Language Immersion Instructional Assistants (Stone)

Michael Stone spoke about the John Stanford International School has the annual request to fundraise to support language immersion IAs in the classroom. Additional discussion was combined with the discussion of McDonald International School.

The Committee reviewed the item and moved it forward for consideration by the full Board.

Annual Reports

1. Annual Title I State & Federal Grants Summary Report (Stone)

Michael Stone spoke about some changes that have occurred since he spoke about this last month. ESSA will begin in 2017-18 and state accountability needs to be in place.

Directors asked how much influence does the new OSPI director have or will be the career employees. Mr. Stone spoke about no more AYP letters will be sent out next year, they have not said what we can do with those funds next year. A middle school band that are over 70%. Mr. Stone spoke about the Current threshold is at 70% has to be serviced by Title I. Historically this district has a model we serve K-5 first that is 40%-70.99%. This next year we are proposing to lower the threshold to 35% and middle school down to 60%. Mr. Stone spoke about how that reduction will allow Mercer and Denny to become Title I schools. Elementary schools that will

be added with this change would be Olympic View. We will have 39 buildings that will receive title I funds next year.

Directors asked do preschool classrooms meet those requirements. Mr. Stone spoke about the preschools can be but, because of the buildings they are in we have used it for K-5. If we had the space we could use it for pre-k. Mr. Stone spoke about the Tacoma school district as an example and that district had the best effort to close the gap was to close all Title I schools and use the funding to provide for preschool. Mr. Stone will find out how that worked out for Tacoma.

Directors asked if the District could use Title I to fund preschool all day. Mr. Stone spoke about how it would cause a reduction in seats.

Directors asked what about increased SPED for pre-kindergarten. Mr. Stone would have to look into that. The Title I funds have been spent on professional development on teachers in K-3. Mr. Stone spoke about some breakout highlights in the breakout of grant capacity and grant spending. We are going to have 24 summer schools sites.

Directors asked are the summer school program bridge. Mr. Stone noted it is academically focused.

Directors asked for information in a Friday memo going forward.

Regular Agenda

1. Monthly Grants Update (Stone)

No update

2. Monthly Budget Update (Sebring)

Linda Sebring spoke about the handout being a summary of recent presentations and about the budget calendar status. Ms. Sebring spoke about the process of looking at this year's school WSS budget development process as compare to last year (FY15-16). Ms. Sebring noted on February 24th, the schools will receive their funding.

Directors asked where the budget development process priorities one communicated?

Stephen Nielsen spoke about how in our state constitution, the legislature is required to fund schools, but their spending plan has large "strings attached" to it. The District's budget has very little flexibility based on how the state constitution is written. Fortunately, the Seattle voters approved our local operating and capital levies (including the City's Families and Education Levy). The citizens of Seattle are willing to support public education.

Mr. Gotsch spoke about how it is the Business & Finance Office's responsibility to keep the Board well informed, so that when the Superintendent's final budget recommendation is brought to the Board for their review and approval, they are already well informed.

Directors wanted to know what items they have a say on and decisions made in this building and asked how the budgets can be given to the Directors. Mr. Nielsen spoke about the central office departments' Service Based Budget meetings that have occurred to date. Mr. Nielsen spoke about that in order for a priority list to occur, it would need to have a "flex view", what programs and services are fixed versus where the funding and decision making is flexible. Ms. Sebring spoke about how this is all in the budget development calendar timeline and these items would be discussed in the Board's March 23 work session.

Directors Harris said students working with 20 year old textbooks, and alternative media would be solid budget expenditure and she wants to know what would she need to do to help make that happen. Ms. Sebring spoke about how she expected more final budget assumptions in the next week or two and that this can be discussed at the next budget work session in March.

Ms. Sebring spoke about other highlights from the Budget department that have been shared with the board and the community.

Directors asked what will happen with waitlists once the school allocations are done. Ms. Sebring spoke about how that is a problem with many factors are involved.

3. SMART Goal #4 Early Hiring (Codd)

Adrian Byrd-Pina spoke about the achievement for early hiring. Ms. Byrd-Pina spoke about the timeline has moved up and it was targeted to achieve high need hires by 90% by March. Elementary education, special education, and world learners. Urban school Capital Academy, we are a member of Urban Schools that practices & that create data on a national data. The District is in the third year of membership. Ms. Byrd-Pina spoke about the weekly meeting every Wednesday at 2:30 enrollment, finance, recruitment, and Chief of Schools and a leadership huddles in Human Resources. Ms. Byrd-Pina spoke about the successful career fair that was held on January 30th the District was able to offer 132 early hires out of the 215. Secured funding for career fairs to generate publicity, such as LinkedIn and Twitter. The pools are organized by the pools to make it more efficient for the user. Ms. Byrd-Pina spoke about how for the first time we are working with the schools to track our student teachers from the universities. Many additional ways are being used to look into new pool candidates. Ms. Byrd-Pina spoke about offers made at the recruitment fair for 23 elementary schools and teachers, 35 in special education, music, math, art and Montessori.

4. Monthly Human Resources Audit Title IX Update (Codd)

No report. And this item will be removed from future A&F meetings

5. Monthly Head Start Financial Update (Gousie)

Eugene Gousie spoke about an update on the Head Start budget situation. Mr. Gousie advised that due to unanticipated budget deficits triggered by the fall's Collective Bargaining agreement, Head Start requested \$150,988 from the Federal Government to cover 2015-16's anticipated costs. The Federal Government has provided the amount requested, enabling us to move forward this year with the funds needed to cover program costs. Mr. Gousie spoke about anticipating a shortage of \$320,000 in 2016-17. Our options for accessing this amount of funds are very limited. To cover \$240,000 of that amount, we are planning to make a request to the Office of Head Start to reduce our slots by 30, which will reduce our classes by 2. We will then need to find additional funds between cuts elsewhere in the program and possibly increased funding when Congress makes allocations for next year.

Directors asked if the city will assume a preschool site and what the implications for our funding. Mr. Gousie spoke about looking ahead to a sustainable program model in 2017-18, we will need to restructure our staffing patterns to be in line with the funding we receive from the Office of Head Start. This will involve renegotiation of positions with represented staff.

6. Monthly Procurement Update (Murphy)

Not Updated

7. Monthly Financial Status Update (Tsoi)

Barry Tsoi spoke about the general fund for December 2015, For December 2015, the ending fund balance was about \$88M. This compares to \$71.3M for December 2014. Fund balance normally peaks in April and October each year when property taxes are received. Mr. Tsoi spoke about the fund balance trending; the Fund Balance will be trending down till April 2016. - Enrollment for the year of 51,097 is less than the adopted budget for 2015-2016 by 577 FTE. This is still 855 students higher than the previous year. Mr. Tsoi spoke about revenues were \$248.3M YTD, compared to \$225.9M last year. Mr. Tsoi spoke about the state revenues of \$133.7M are up approximately \$12.8M over the previous year, reflecting increased enrollment. Expenditures of \$225.4M were up \$18.7M over the previous year due primarily to increased staff expenses, as well as special education expenditures.

Directors asked do we know where the other students are going. Mr. Gotsch spoke about brining enrollment to another committee meeting.

Directors asked do we know what is school based or John Stanford based. Mr. Tsoi spoke about mostly being school based.

Mr. Tsoi spoke about the capital Projects Fund. Mr. Tsoi explained the Capital Projects Fund balance was \$156.1M compared to \$150.4M in the prior year. Fund balance is comprised primarily of BEX IV (\$81.1M), BTA III (\$64.2M). Revenues were \$78.4M, consisting primarily of property taxes from the BEX IV levy (\$54.1M) and BTA III levy (\$20.7M). Expenditures of \$44.4M were comprised principally of BEX IV (\$36.8M) & BTA III (\$3.9M).

Mr. Tsoi spoke about the Debt Service Fund in December 2015, the fund balance was \$5.3M. The balance will increase this year as we establish a sinking fund for the 2010 QSCB (\$17.5M) that is due in total in June, 2017. Mr. Tsoi spoke about the Associated Student Body (ASB) Funds represent monies raised by student groups for cultural, athletic, recreational and/or social purposes. Fund balance at December 2015 was \$4.1M compared to also \$4.5M in 2014. Mr. Tsoi spoke about the revenue for December was \$1.7, and expenditures were only \$1.1M. Mr. Tsoi spoke about the trust Fund accounts are monies donated to the District for private purposes, primarily scholarships, and are governed by individual agreements. The December fund balance was \$1.9M.

Mr. Tsoi spoke about the King County Pool net earned interest rate was 0.63% in December of 2016, same as 0.58% in the previous month. The rate will continue to be low, as the King County Investment Pool maintains a risk mitigation policy.

Mr. Gotsch spoke about the King County Treasure will be invited to the next A&F meeting.

8. Committee Annual Work Plan (Gotsch)

Kenneth Gotsch spoke about the work plan. It is a living document and it can be changed as needed to reflect work being done by the committee.

Andrew Medina had some updates to the quarterly audit schedule. Internal audit will provide quarterly updates and the final audit plan will occur in September.

Directors asked about ethics updates. Mr. Medina indicated that he provides an annual update to the Board even though it is not required, but there is not an ethics update at the A&F meetings. Directors request that the Ethics Policy be updated to require an annual update. Mr. Medina indicated that the policy could be updated before the next annual report date.

Directors are concerned with why the ethics office does not investigate all complaints. Mr. Medina explained that he is charged with ethics investigations and whistleblower retaliation investigations, but that whistleblower complaints are sent back to the respective Assistant Superintendent for investigation.

Adjourn

The meeting was adjourned at 7:15pm.